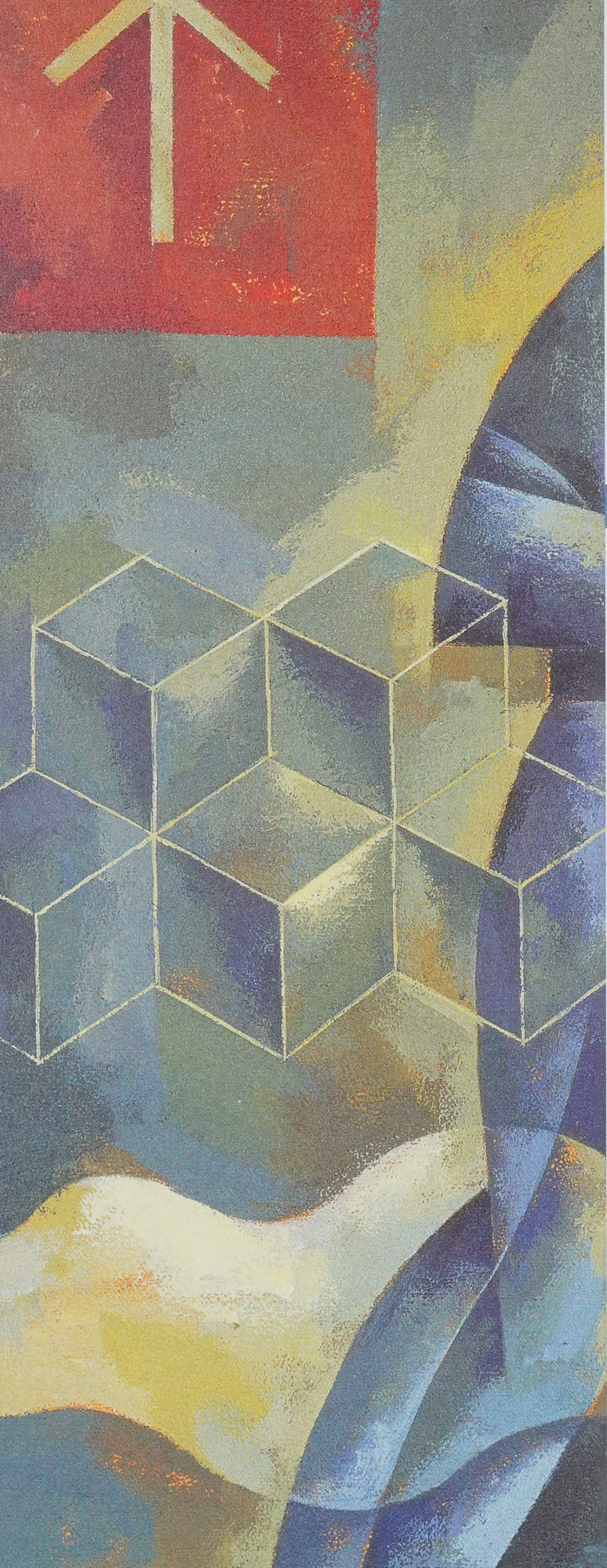
1999
ANNUAL
REPORT

CYPRESS
ENERGY INC.

Cypress Energy Inc.

Our vision for Cypress has been clear from the beginning. By adhering to a deliberate strategy of strictly controlled acquisitions complimented by aggressive exploration and exploitation, we set out to build a high performing oil and gas company. We assembled a team of people with complimentary skills and concurrent goals. In our first four years we executed our strategy and developed a solid financial base, a low cost operating environment and a high quality asset base yielding measurable growth in shareholder value. As we enter 2000, we're proud of how much we have accomplished, and are ready to take on the opportunities that lie ahead.



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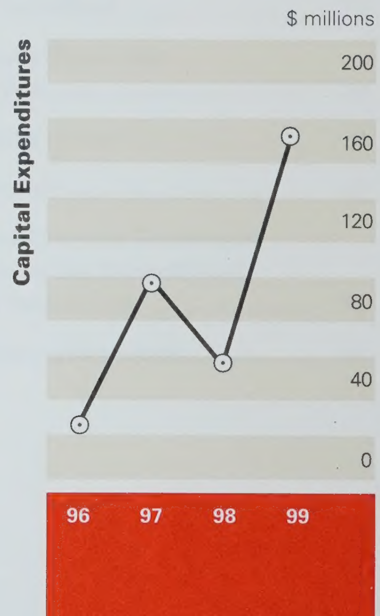
In less than four years, Cypress Energy has grown from a start-up **oil and gas** company with no production to a **significant** intermediate-sized player with a 1999 exit production rate of over **10,000 barrels** of oil equivalent per day.

We have achieved our growth by executing a **strategy** of focused **exploration**, strategic **acquisitions** and controlled **exploitation**.



We will continue to grow production and shareholder **value** in 2000 and beyond by exploiting the strength of our balance sheet, **low cost** structure, **high-quality** reserve base and large land position.

Highlights

Cash flow grew 134 percent in 1999 as a result of strong production growth and higher realized commodity prices.

A key measure of our reserve quality is the high proportion of proven developed reserves in our totals, representing 75 percent of our total reserves.

For the years ended December 31	1999	1998	% change
FINANCIAL ($000s except per share amounts)			
Gross production revenue	**78,168**	34,124	+ 129
Cash flow from operations	**40,903**	17,451	+ 134
Per share basic – Class A shares only	**1.12**	0.72	+ 56
Per share basic – Class A and Class B shares	**1.09**	0.68	+ 60
Per share – fully diluted	**1.04**	0.60	+ 73
Net income	**7,437**	1,592	+ 367
Per share basic – Class A shares only	**0.20**	0.07	+ 186
Per share basic – Class A and Class B shares	**0.20**	0.06	+ 233
Per share – fully diluted	**0.20**	0.06	+ 233
Capital expenditures, net	**163,408**	48,917	+ 234
Long-term debt (including working capital deficiency)	**93,312**	34,878	+ 168
Shareholders' equity	**166,428**	100,475	+ 66
Weighted average common shares outstanding – fully diluted (000s)	**39,914**	29,692	+ 34
OPERATING			
Production			
Oil and NGLs (bbls/d)	**3,090**	1,652	+ 87
Natural gas (mcf/d)	**51,669**	33,288	+ 55
Total (boe/d) (10:1 conversion)	**8,257**	4,981	+ 66
Reserves (proven and probable)			
Oil and NGLs (mbbls)	**12,963**	6,747	+ 92
Natural Gas (mmcf)	**225,187**	138,013	+ 63
Total (mboe) (10:1 conversion)	**35,480**	20,553	+ 73
Undeveloped land (net acres)	**468,625**	135,360	+ 246

- Grew production 66 percent over 1998 to 8,257 barrels of oil equivalent per day through exploration, development and acquisitions.
- Increased net income 367 percent over 1998 to $7.4 million by focusing on low-cost growth.
- Increased reserves 73 percent over 1998 to 35.5 million barrels of oil equivalent, through successful exploration and strategic acquisitions.
- Acquired Canadian Conquest Exploration Inc. for $75.4 million, providing Cypress with two new core areas.
- Completed the acquisition of Gardiner Exploration Limited for a net consideration of $8.3 million, adding another new core area to our expanding portfolio.
- Increased our undeveloped land position 246 percent through a combination of Crown land sales and acquisitions.

1999 was an exceptional year for Cypress, highlighted by two **strategic acquisitions** and record operational and financial **results**.

The success we experienced is due to our adherence to a straightforward growth strategy: we **acquire to grow** and we explore to augment our **growth** and build **production.**

We pursue both components of this strategy, focusing on the activity adding the most value to the Company at a given time. By successfully balancing the two, we deliver the kind of performance expected by our shareholders.

In implementing our strategy in 1999, we acquired Canadian Conquest Exploration Inc. and Gardiner Exploration Limited, adding three core areas to our portfolio in the process; we made two significant property purchases in addition to a number of smaller purchases to augment our core areas; and we supported our acquisitions with the most aggressive drilling program in our history.

Management team, left to right:

Donald Archibald, President and Chief Executive Officer

Randal Brockway, Vice President, Finance and Chief Financial Officer

Alison Jones, Vice President, Exploration

Howard Crone, Vice President, Operations and Chief Operating Officer

Gary Peddle, Vice President, Land

Operationally, we increased crude oil and liquids production 87 percent and natural gas production 55 percent. Our total reserves increased 73 percent and we more than tripled our undeveloped land base. Our exploration program resulted in drilling a record 71 gross wells (54 net) at a 69 percent success rate.

Our excellent financial results underscore our successful activity. In 1999, we increased revenues 129 percent, cash flow 134 percent and net income 367 percent overall. Importantly, we added shareholder value by increasing our per share results. Cash flow per fully diluted share grew 73 percent, earnings per fully diluted share increased 233 percent, reserves per fully diluted share rose 28 percent and production per fully diluted share grew 23 percent.

Explore

Our 1999 exploration program was the most aggressive in Cypress' history. During the year we drilled 71 wells, two-thirds of which were exploratory. The primary focus was on three key properties: Dawson, Thorsby, and Stowe Creek.

Dawson was very critical for us in terms of being able to demonstrate our ability to pursue full cycle exploration. Since our entry into the area through the purchase of Gardiner Exploration in July 1999, we have converted an undeveloped land base with no production or processing facilities into an area with an extensive undeveloped land position, 16 wells, over 10 million cubic feet per day of current gas production, two operated gathering systems and two processing facilities.

Thorsby, which we acquired two years ago, was considered at the time to be a mature property. In the third quarter of 1999 however, we drilled one of the best wells ever drilled in the area. This Upper Glauconite new pool gas well is producing over three million cubic feet per day and potentially extended the known trend four to six miles. We have been able to effectively use 3D seismic to enhance our drilling results. In addition to the Upper Glauconite channel trend, we have been successful at exploiting several other producing zones in the area. We gain additional value by processing any new production through our existing facilities which currently have unused capacity.

In the Stowe Creek area, we are pursuing two exploration strategies, one concentrating on the deeper oil potential and the other on the shallower gas zones. Since acquiring the property in May 1999, we increased our working interest from 50 to 100 percent, acquired a significant amount of new seismic data, doubled our undeveloped land position and, beginning in the winter of 1999/2000, commenced an aggressive and successful drilling program for both the deeper and shallower zones.

Acquire

In 1999, we significantly increased our asset base through the acquisitions of Canadian Conquest Exploration Inc. and Gardiner Exploration Limited, as well as with a number of individual property purchases in our core areas.

Our acquisition of Canadian Conquest provided Cypress with two new core areas including Stowe Creek in Northwest Alberta and properties in Southwest Saskatchewan. Cypress operates both of these new properties and has average working interests of almost 100 percent.

Our acquisition of Gardiner Exploration added substantially to our undeveloped land base and drilling prospect inventory, and complemented our operations in Northwest Alberta with the addition of the Dawson area. The area already contained a number of drillable prospects which provided for rapid development.

Our acquisition strategy is structured in two phases: first to develop new core areas and second, to add to the value of these areas by consolidating our interests and purchasing adjacent land. Following this strategy, we augmented our core areas during the summer by acquiring our partners' interests at Stowe Creek in Northwest Alberta and Brant/Farrow in Southern Alberta.

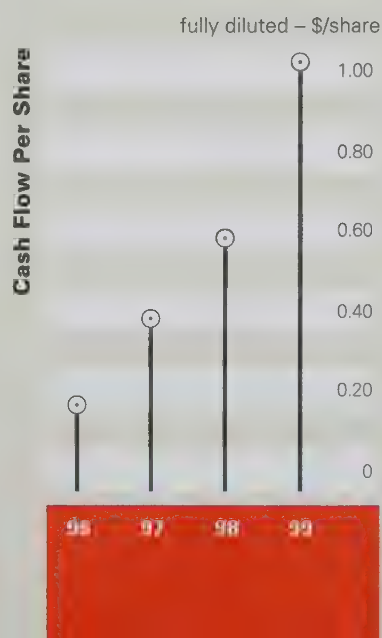
Perform

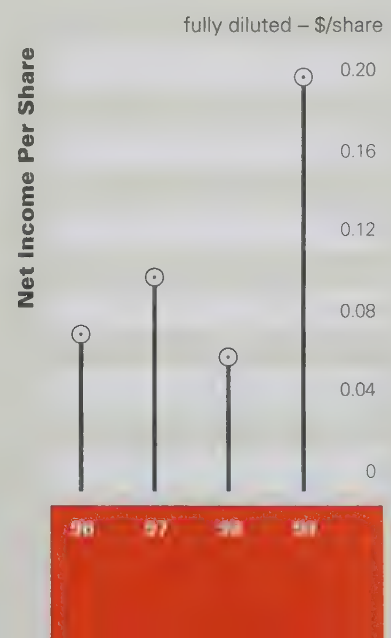
Cypress continued its track record of strong financial performance in 1999. On a year-over-year basis, we increased our revenue 129 percent to $78.2 million in 1999, our cash flow 134 percent to $40.9 million and our net income 367 percent to $7.4 million. We achieved these very impressive results by managing one of the lowest operating cost structures in the industry, combined with a superior revenue base. Cypress enjoys top quartile revenue per barrel of oil equivalent because we produce light oil and high energy content (high BTU) natural gas. We will gain significantly in 2000 as well, due to a dramatic recovery of crude oil and natural gas liquids' prices through 1999 and into 2000.

Production volumes reached record highs in 1999 increasing 66 percent to 8,257 barrels of oil equivalent per day in 1999. We achieved exit production of over 10,000 barrels of oil equivalent per day, an increase of 75 percent over 1998. We anticipate this strong production growth will continue in 2000.

Our total reserves grew 73 percent to 35.5 million barrels of oil equivalent, with 75 percent of our total reserves proven, based on independent engineering estimates by Gilbert Lausten Jung Associates Ltd. No proven undeveloped reserves are booked and 75 percent of our proven reserves are proven producing. Of our probable reserves, 50 percent are classified as probable producing and have no capital associated with bringing them on production. Production was replaced by a factor of six times in 1999.

Cypress' net capital expenditure program added proven plus probable reserves at a cost of $9.11 per barrel of oil equivalent and proven reserves at $11.71 per barrel of oil equivalent in 1999. Through Crown land purchases and acquisitions, approximately $35 million was spent on land in 1999, contributing roughly $2.00 per barrel of oil equivalent to our reserve addition costs.

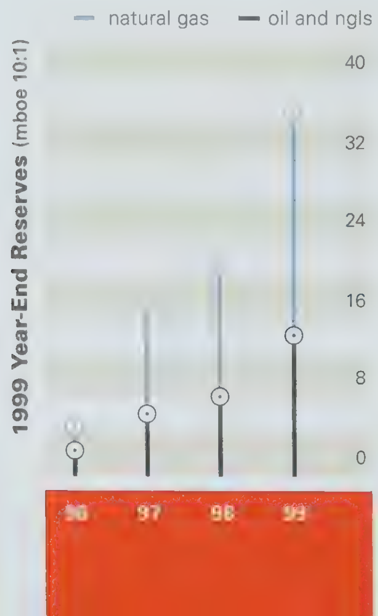




Outlook

By following our strategy of acquiring new properties to grow, and actively exploring on these new properties to augment our growth and build production, we have successfully increased shareholder value throughout our four-year history. In 2000, we will continue to implement this proven strategy. When considering potential acquisitions and directing our exploration program, we will continue to be opportunity driven and not commodity driven, seeking value first and foremost.

That said, our primary focus will likely remain on natural gas in 2000. The fundamentals supporting natural gas continue to be very strong and the long-term potential remains high. However, we will also continue to pursue light oil because of the available market and current strong prices.

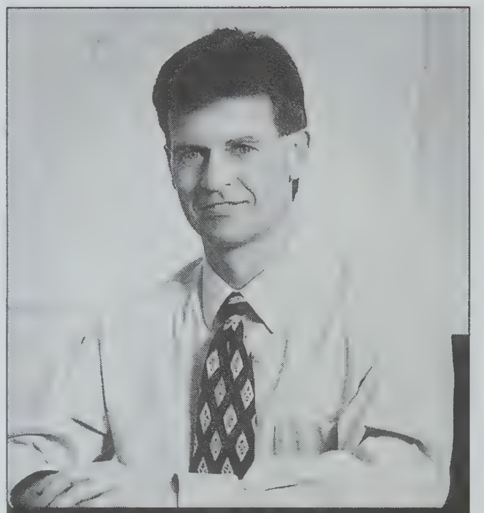


The prevailing outlook in the oil and gas industry is much more optimistic than it was one year ago. Commodity prices remain strong. Cypress will take advantage of these positive market conditions by implementing our strategy of acquiring to grow and exploring to augment growth and build production. The combination of these two strategies will allow us to continue delivering solid performance.

In closing, I would like to express my appreciation to our employees for their diligence and effort, to our Board of Directors for their advice and direction, and to our shareholders for their continued support.

On behalf of the Board of Directors,

Donald Archibald
President and Chief Executive Officer
March 22, 2000



Donald Archibald,
President and Chief Executive Officer

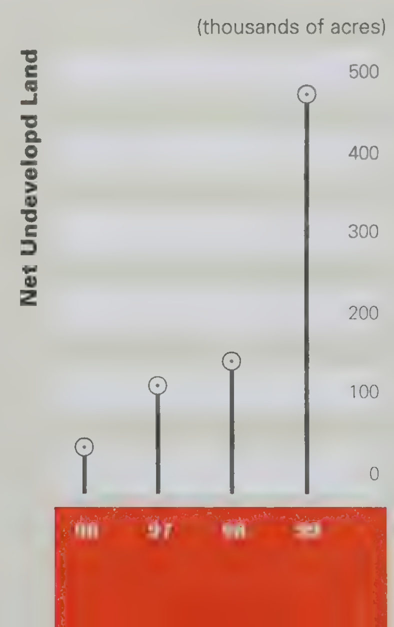
Our strategic acquisitions in 1999 of Canadian Conquest Exploration and Gardiner Exploration expanded our operations from two to five core areas.

Land

Cypress made a significant commitment to growing its undeveloped land base in 1999. With an investment of approximately $35 million, the Company tripled its undeveloped land portfolio, while maintaining high working interests in all areas. Cypress' land base is heavily concentrated in our core areas where we have existing processing infrastructure.

Undeveloped Land

	1999	1998
Gross acres	**655,000**	180,000
Net acres	**469,000**	135,000
Average working interest (percent)	**72**	75



Drilling

In 1999, Cypress drilled a record number of wells, reaching a total of 71 gross (54 net) wells, compared to 41 gross (36 net) wells in 1998. Of those wells, 69 percent were exploration wells, and 49 gross (37 net) were successful. Cypress' natural gas emphasis was evident in the 1999 drilling program, with 41 gross (30 net) gas wells, 9 gross (7.5 net) oil wells and 21 gross (16.5 net) dry and abandoned. The Company's average working interest was 76 percent in 1999.

In 2000, Cypress is planning to drill over 100 wells, focusing on the Stowe, Dawson and Thorsby areas.

Drilling Activity

	1999		1998	
	Gross	**Net**	Gross	Net
Property	**# of wells**		# of wells	
Stowe	8	7.6	–	
Dawson	8	4.0	–	–
Thorsby / Central Alberta	20	19.2	19	19.0
Brant / Farrow	19	13.8	15	12.0
Southwest Saskatchewan	2	2.0	–	–
Other	14	7.4	7	5.0
Total	71	54.0	41	36.0

Production

Over 90 percent of Cypress' 1999 production came from four key properties: Thorsby, Brant/Farrow, Stowe and Southwest Saskatchewan. The Company operates all four of these properties and holds high working interests in each. In addition, Cypress owns the gas processing facilities and infrastructure in all of its core areas.

Producing Property Summary

Year ended December 31, 1999 Property	Natural gas (mcf/d)	Crude oil & NGLs (bbls/d)	Combined (boe/d)
Stowe	6,761	307	983
Dawson	–	–	–
Thorsby / Central Alberta	32,028	1,188	4,390
Brant / Farrow	11,064	247	1,353
Southwest Saskatchewan	135	721	735
Other	1,681	627	796
Total	51,669	3,090	8,257

Reserves

The Company's reserves are independently evaluated by Gilbert Lausten Jung Associates Ltd. At year end 1999, 75 percent of total reserves were proven. There are no proven undeveloped reserves booked. Of the probable reserves, 50 percent are classified as probable producing and have no capital associated with bringing them on production.

In 1999, production was replaced by a factor of six times. In total, Cypress' proven and probable reserves increased to 35.5 million barrels of oil equivalent in 1999, a 73 percent gain over 1998 reserve estimates. The Company's reserves are split 63 percent natural gas, 13 percent natural gas liquids and 24 percent light oil. Cypress has no heavy oil reserves.

Reserve Volumes and Values

Year ended December 31, 1999

	Oil (mmbbls)	Gas (bcf)	NGLs (mmbbls)	Net present value ($ millions) before income tax discounted at 0%	10%	12%	15%
Proven producing	5.7	113.5	2.7	324	218	206	191
Proven non-producing	0.7	52.5	0.8	95	60	56	50
Total proven	6.4	166.0	3.5	419	278	262	241
Probable	2.0	59.2	1.1	136	60	52	44
Proven plus probable	8.4	225.2	4.6	555	338	314	285

Reserve Reconciliation

	Crude oil and NGLs (mbbls)			Natural gas (mmcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1997	3,578	1,380	4,958	80,787	31,230	112,017
Revisions/Additions	451	(392)	59	22,290	(884)	(21,406)
Acquisitions	1,724	611	2,335	12,458	4,370	16,828
Production	(603)	–	(603)	(12,150)	–	(12,150)
December 31, 1998	5,150	1,599	6,749	103,385	34,716	138,101
December 31, 1998	5,150	1,599	6,749	103,385	34,716	138,101
Revisions/Additions	2,119	1,074	3,193	39,641	14,853	54,494
Acquisitions	3,684	465	4,149	41,859	9,593	51,452
Production	(1,128)	–	(1,128)	(18,860)	–	(18,860)
December 31, 1999	9,825	3,138	12,963	166,025	59,162	225,187

1999 Reserve Life Index

	December production	Total proven	Proven plus probable
Oil and NGLs (bbls/d)	3,931	6.8 years	9.0 years
Natural gas (mmcf/d)	60.2	7.6 years	10.3 years
Equivalent barrels (boe/d)	9,954	7.3 years	9.8 years

1999 Year-end Reserves (10:1 conversion)

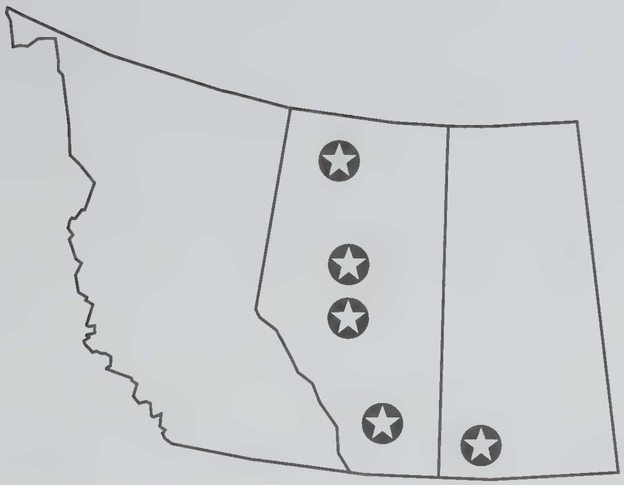
	Proven	Probable	Total
Oil and NGLs (mmboe)	9.9	3.1	13.0
Natural gas (mmboe)	16.6	5.9	22.5

Reserve Addition Costs

Reserve addition costs in 1999 included approximately $35 million which was allocated to land acquisitions. Approximately $2.00 per barrel of oil equivalent of reserve addition costs are represented by land purchases.

Reserve Addition Costs

	Cumulative 1996 - 1999	**1999**	1998
Net capital expenditures ($000s)	320,501	**163,408**	48,917
Proven			
Net reserves at year end (mboe)	26,428	**26,428**	15,489
Net reserve additions (mboe)	31,876	**13,953**	5,650
Reserve addition cost ($/boe)	10.05	**11.71**	8.66
Proven plus probable			
Net reserves at year end (mboe)	35,482	**35,482**	20,559
Net reserve additions (mboe)	40,930	**17,937**	6,218
Reserve addition cost ($/boe)	7.83	**9.11**	7.87



Core Properties

In 1999 we added two new core properties – Stowe and Southwest Saskatchewan – as a result of the Canadian Conquest acquisition. The Gardiner acquisition added a third new core area – Dawson – and increased our undeveloped land position. We executed a highly successful program on this expanded land base in 1999 drilling 71 wells with an overall 69 percent success rate. On the following pages we have highlighted the status of each of our five core areas and provided an outline of our plans for 2000.

Stowe

Property Characteristics
Multi-zone
Dry, sweet gas
Light oil

1999 Average Net Production
983 boe/d
70% natural gas
30% oil and liquids

12% of Cypress 1999 average production

Reserves
5.0 mmboe (proven and probable)
74% proven
60% natural gas
40% oil

14% of Cypress 1999 total reserves

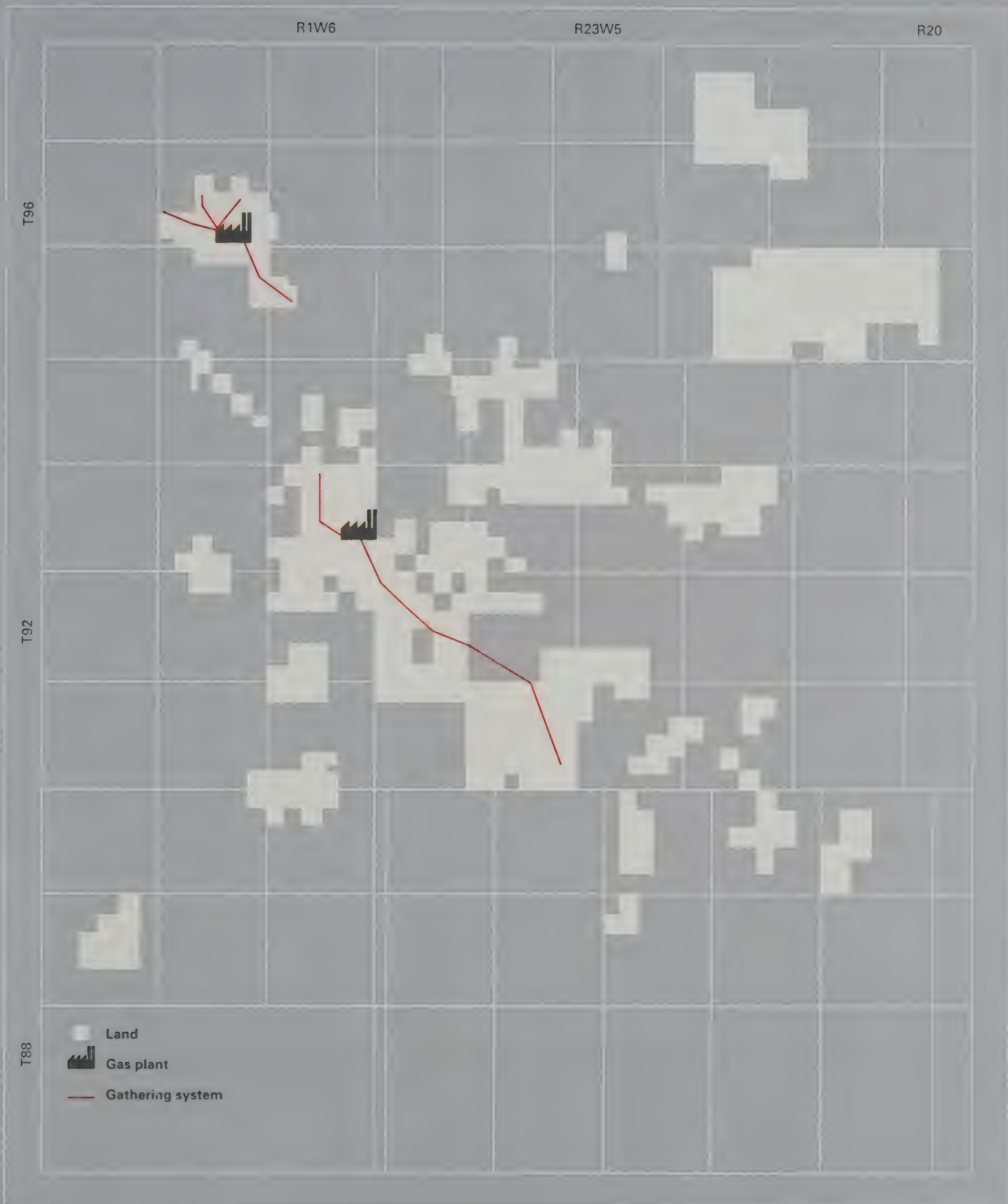
Facilities
Operated infrastructure and gas processing plant with 22 mmcf/d capacity

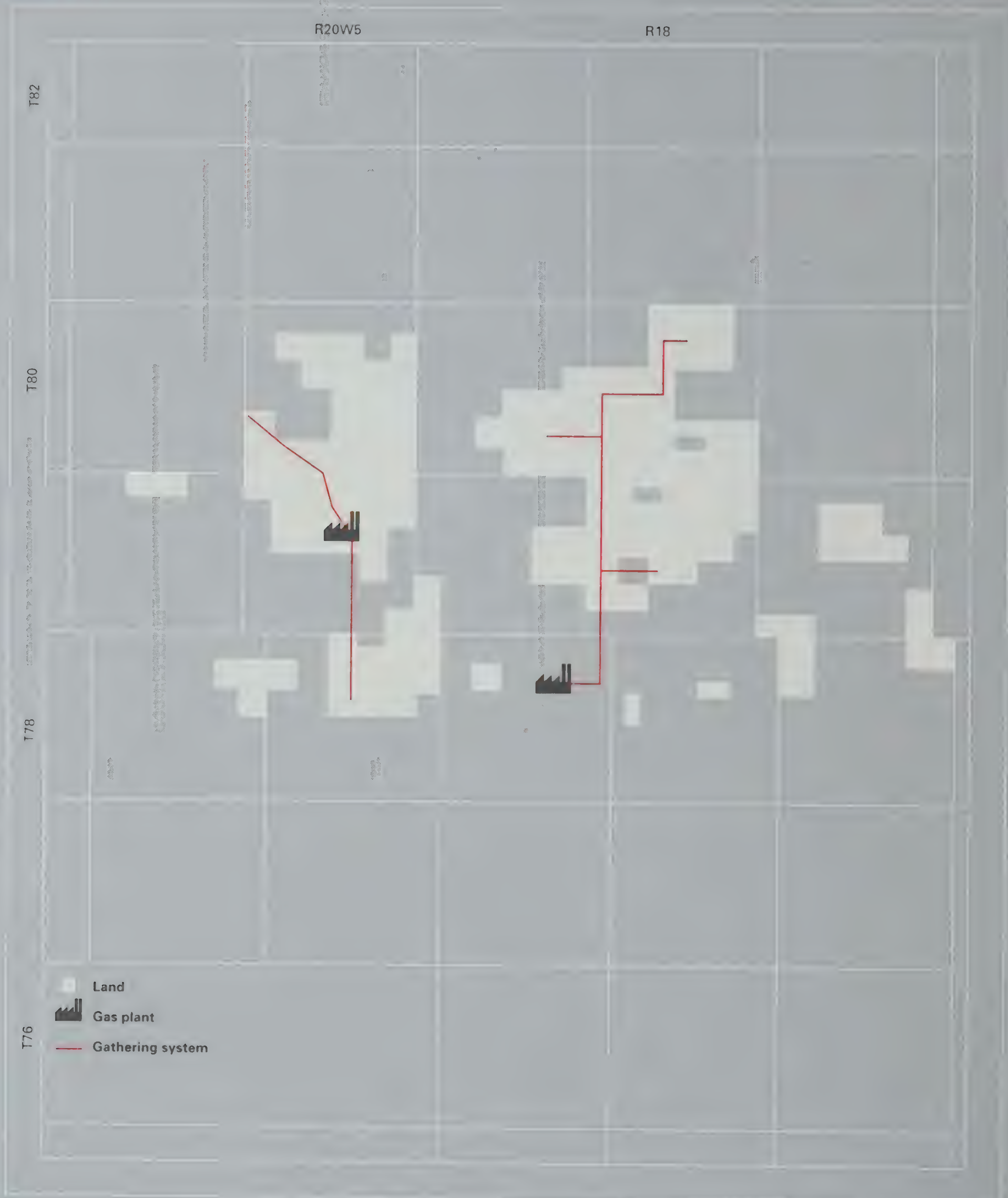
Net Undeveloped Land Holdings
188,000 acres
88% working interest

1999 Highlights
Drilled eight wells (7.6 net), three targeting deeper oil prospects, five for shallower gas prospects
Purchased a partner's 50% working interest to increase ownership in facilities, land and production to 100%
Increased production from 1,000 boe/d to over 1,700 boe/d

2000 Plans
Drill over 30 wells targeting deeper light oil prospects and shallow gas prospects

Stowe




R20W5
R18
T82
T80
T78
T76
Land
Gas plant
Gathering system

Dawson

Property Characteristics
Multi-zone
Dry, sweet gas

1999 Average Net Production
NIL

Reserves
0.8 mmboe (proven and probable)
56% proven
100% natural gas

2% of Cypress 1999 total reserves

Facilities
Operated infrastructure and two gas processing plants built or acquired since year end 1999 with up to 17 mmcf/d capacity

Net Undeveloped Land Holdings
28,000 acres, increased to 40,000 acres by March 2000
50% working interest

1999 Highlights
Drilled eight (4.0 net) wells targeting shallow gas zones
Commenced construction of a gathering system and processing facility which became operational in the first quarter of 2000
Purchased additional land and a second gas plant

2000 Plans
Drill 20 to 30 wells targeting multiple shallow gas zones

Thorsby→

Property Characteristics
Multi-zone
Liquids rich sweet gas

1999 Average Production
3,511 boe/d
71% natural gas
29% oil and liquids

43% of Cypress 1999 average production

Reserves
15.1 mmboe (proven and probable)
78% proven
70% gas
30% oil and liquids

43% of Cypress 1999 total reserves

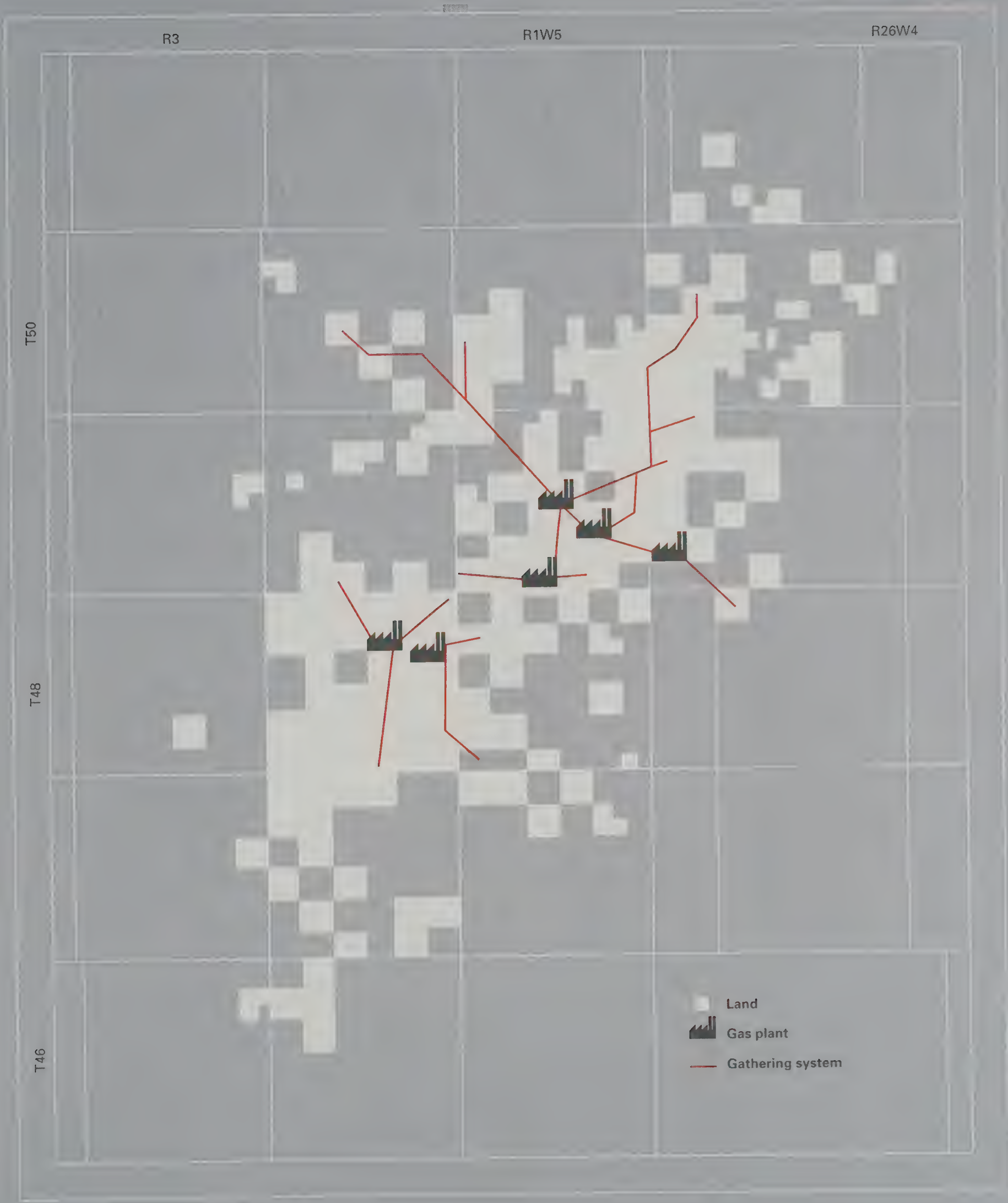
Facilities
Operated infrastructure
Interests in five gas processing plants with 50 mmcf/d capacity
Three of the five plants operated by Cypress

Net Undeveloped Land Holdings
43,000 acres
93% working interest

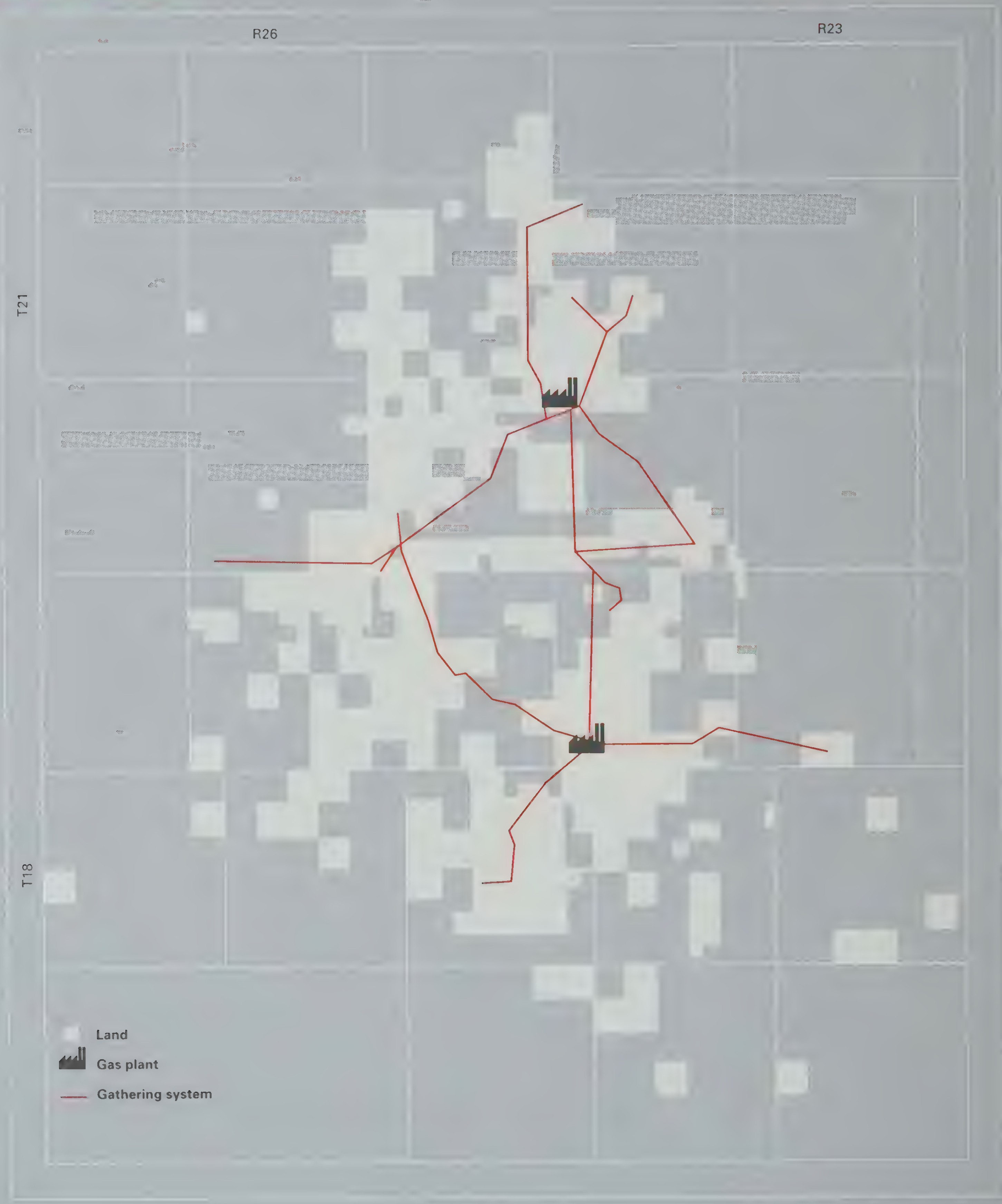
1999 Highlights
Drilled 20 wells (19.2 net) targeting three primary zones
Drilled a successful Upper Glauconite channel well, with sustained production of over three mmcf/d which potentially extends the exploration potential of the area by four to six miles
Shot approximately 25 sections of 3D seismic, followed in early 2000 with a further two 3D seismic programs for a total of almost 40 sections of new 3D coverage

2000 Plans
Drill over 20 wells targeting medium depth gas prone prospects

Thorsby



Brant / Farrow



←Brant / Farrow

Property Characteristics
Multi-zone
Dry, sweet gas
Light oil

1999 Average Net Production
1,353 boe/d
82% natural gas
18% oil and liquids

16% of Cypress 1999 average production

Reserves
4.3 mmboe (proven and probable)
71% proven
80% natural gas
30% oil and liquids

12% of Cypress 1999 total reserves

Facilities
Operated infrastructure and two gas processing plants with up to 15 mmcf/d of capacity

Net Undeveloped Land Holdings
50,000 acres
72% working interest

1999 Highlights
Drilled 19 wells (13.8 net)
Increased production from 1,100 boe/d to almost 1,700 boe/d
Purchased a partner's interest in land, gas plant and production to increase ownership to over 75%
Expanded processing facilities and built an oil battery

2000 Plans
Drill up to 10 wells targeting shallow and medium depth gas prospects

Southwest Saskatchewan→

Property Characteristics
Multi-zone
Medium-light oil

1999 Average Net Production
735 boe/d
98% oil
2% natural gas

9% of Cypress 1999 average production

Reserves
2.2 mmboe (proven and probable)
72% proven
92% oil
8% natural gas

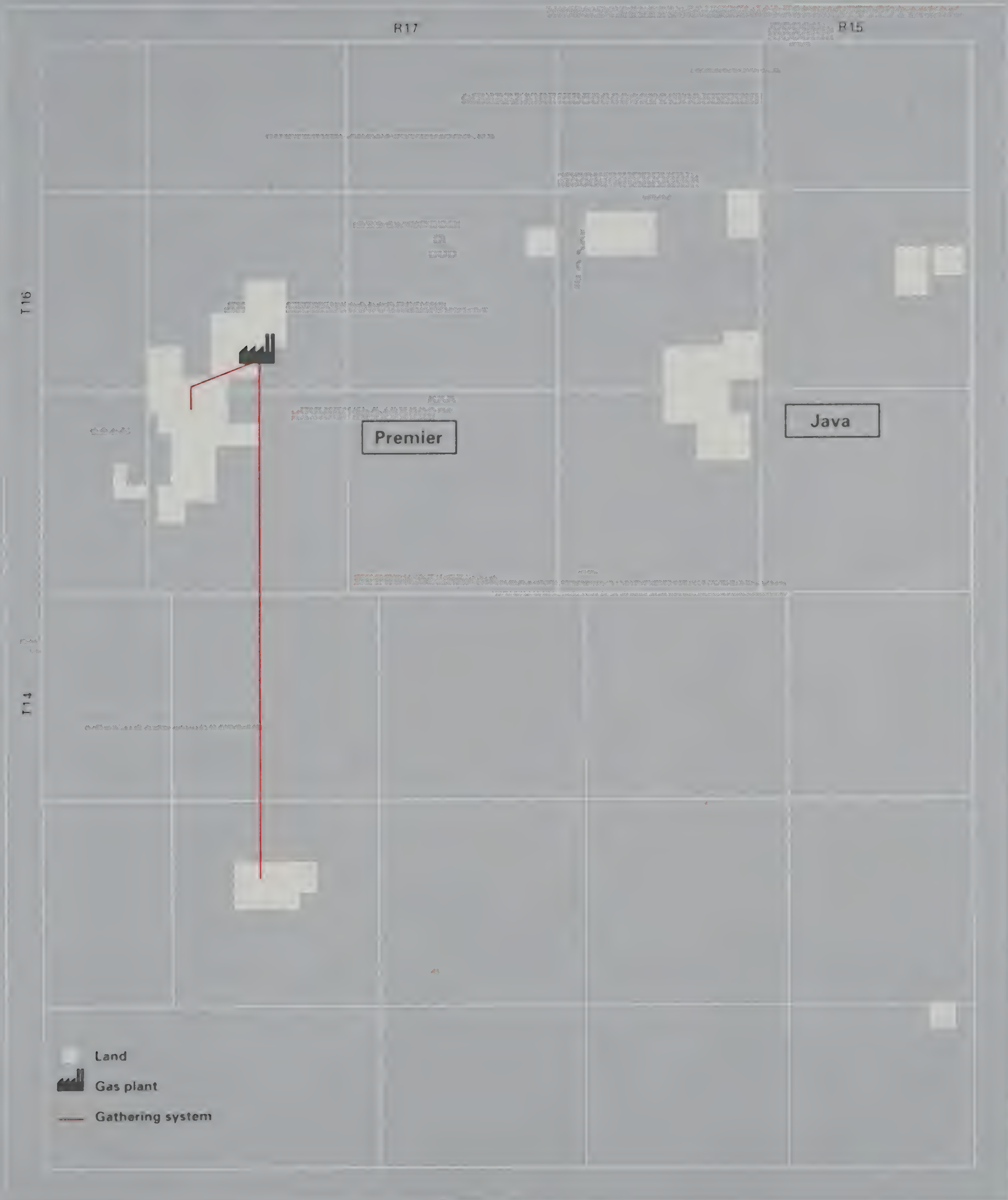
6% of Cypress 1999 total reserves

Net Undeveloped Land Holdings
8,800 acres
81% working interest

1999 Highlights
Drilled two wells (2.0 net)
Purchased a gas plant allowing new gas production to come on stream

2000 Plans
Drill six wells targeting shallow and medium depth oil and gas prospects

Southwest Saskatchewan



Revenue, cash flow and net income all **increased** substantially in 1999, due to **record production** and improved commodity prices.

The following discussion and analysis is management's assessment of Cypress' historical financial and operating results and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 1999, together with the notes related thereto. The reader should be aware that historical results are not necessarily indicative of future performance.

Financial Highlights

Cypress recorded another year of strong financial performance in 1999. Petroleum and natural gas sales, cash flow from operations and net income all increased substantially in 1999. The critical factors contributing to this exceptional growth included a combination of the drilling of a record 71 wells, the corporate acquisitions of Canadian Conquest Exploration Inc. and Gardiner Exploration Limited and the improved commodity pricing environment in 1999.

Major Transactions Affecting Financial Results

During the year the Company completed two significant corporate acquisitions and two significant property acquisitions that had a favorable impact on its financial and operational results for the year and will have a significant impact on its future performance. The following is a summary of these transactions:

Acquisition of Canadian Conquest Exploration Inc.

In May 1999 Cypress completed the acquisition of Canadian Conquest Exploration Inc. ("Canadian Conquest") for a total cost of $75.4 million. The transaction was financed through the issuance of 10.5 million common shares at an ascribed value of $43.0 million. Cash acquisition costs of $3.6 million were required to complete the purchase. The Company also assumed Canadian Conquest's bank debt, working capital and other obligations of $28.8 million. The acquisition of Canadian Conquest provided the Company with focused operations and facilities control in the two new core areas of Southwest Saskatchewan and Stowe, as well as adding more than 185,000 net undeveloped acres.

Acquisition of Gardiner Exploration Limited

In July 1999 the Company completed the acquisition of Gardiner Exploration Limited ("Gardiner") for a total cost of $8.3 million. The transaction was financed through the issuance of 2.6 million common shares at an ascribed value of $15.8 million. Cypress also acquired cash and working capital of $7.5 million. The acquisition contributed over 54,000 net undeveloped acres of land, strategic 3D and 2D seismic data as well as minor oil and gas production and reserves. Most importantly this acquisition provided the Company with the new core exploration area of Dawson. The net effect of the Gardiner acquisition in terms of revenue received in 1999 was minimal, however, the Company has experienced considerable drilling success in Dawson, the results of which will have a significant impact on the Company's financial and operational results in 2000.

Acquisition of Properties

Cypress completed two significant property acquisitions in 1999 for a total cost of approximately $20.3 million. The first acquisition was effective April 1999 whereby Cypress purchased additional working interests in producing properties in the core area of Brant/Farrow. In addition to the producing properties acquired, Cypress also acquired 19,680 acres of undeveloped land in this transaction. The second significant acquisition was effective July 1999 whereby Cypress increased its working interest ownership in producing properties in the core area of Stowe. This transaction also included 59,000 net acres of undeveloped land.

Detailed Financial Analysis

Petroleum and Natural Gas Sales

Petroleum and natural gas sales more than doubled in 1999 to $78.2 million from $34.1 million in 1998. The significant gain in sales reflects increases in both average daily production and average commodity prices received.

Net Operating Revenue Summary

Years ended December 31 ($000s)	1999	1998	% Change
Oil sales	$ 19,482	$ 4,592	+ 324
Natural gas sales	52,179	25,306	+ 106
Natural gas liquids sales	7,156	4,237	+ 69
	78,817	34,135	+ 131
Hedging gains (losses)	(1,062)	(58)	– 1,731
Royalty income	413	47	+ 778
Total petroleum and natural gas sales	$ 78,168	$ 34,124	+ 129

Cypress' average daily production increased 66 percent to 8,257 barrels of oil equivalent per day in 1999 from 4,981 barrels of oil equivalent per day in 1998. The corporate acquisition of Canadian Conquest was responsible for a substantial portion of the total increase in average daily production in 1999 with the remainder of the increase coming from the Company's successful 1999 drilling program. Cypress continues to focus on liquids-rich natural gas plays, with natural gas production accounting for over 60 percent of average production during the year.

Cypress was well positioned to take advantage of the recovery in commodity prices that took place during 1999.

Average Realized Price

Years ended December 31	1999	1998	% Change
Oil ($/bbl)	26.36	17.34	+ 52
Natural gas liquids ($/bbl)	18.40	12.52	+ 47
Natural gas (excluding hedging) ($/mcf)	2.77	2.08	+ 33
Natural gas (including hedging) ($/mcf)	2.71	2.08	+ 30
Total average realized price (including hedging) ($/boe)	25.80	18.74	+ 38

The increase in petroleum and natural gas sales experienced in 1999 was attributed almost equally to increased production volumes resulting from the Company's drilling program and acquisitions, and an increase in commodity prices realized.

Variance Analysis

($millions)		% Change	
Reported 1998 petroleum and natural gas sales	$ 34.1		
Increase due to gas production volumes	14.0	+	32
Increase due to oil and liquids production volumes	8.9	+	20
Increase due to realized gas price	13.0	+	30
Increase due to realized oil and liquids price	9.0	+	20
Impact of hedging activities	(1.0)	–	3
Other	0.2	+	1
Total increase, net	44.1		100
Reported 1999 petroleum and natural gas sales	$ 78.2		

Oil Sales

Oil sales increased 324 percent in the year from $4.6 million in 1998 to $19.5 million in 1999. The increase in sales can be attributed to both an increase in volumes and an increase in prices received. Average daily production of oil increased to 2,025 barrels of oil per day in 1999 from 726 barrels of oil per day in 1998. The majority of the increase in oil production was a result of the Canadian Conquest acquisition.

Cypress did not hedge any oil volumes in 1999 and does not currently have any oil volumes hedged. Oil is marketed through short-term contracts at spot prices adjusted for quality and transportation. Accordingly, the price that Cypress receives for its oil in 2000 will vary with the spot price of oil.

Natural Gas Sales

Natural gas sales increased 106 percent during the year from $25.3 million in 1998 to $51.2 million in 1999. As with oil sales, the increase in natural gas sales can be attributed to both an increase in volumes and an increase in prices received. Average daily production of natural gas increased 55 percent to 51.7 million cubic feet per day in 1999 from 33.3 million cubic feet per day in 1998.

In 1999 Cypress entered into various financial hedges to fix the price it receives on a portion of its natural gas sales. Cypress realized a hedging loss of $1.0 million in 1999 on its financial contracts related to natural gas.

In 2000, Cypress has physical delivery contracts to deliver a total of 11,473 gigajoules per day. Of these contracts 5,201 gigajoules per day are at spot prices less a marketing fee. The remainder of the physical contracts include a NYMEX based contract that has a cap of US$1.975 per million BTU for 5,272 gigajoules per day and expires on June 30, 2000 and a contract for 1,000 gigajoules per day with a fixed price of $2.58/gigajoule at AECO and expires October 31, 2000. Cypress also has aggregator contracts for production of approximately 16 million cubic feet to 18 million cubic feet per day, depending on the production from the dedicated properties. Cypress currently has one financial contract in place to fix the price of 10,000 gigajoules per day of natural gas at $2.64/gigajoule at AECO until October 31, 2000. The remainder of Cypress' natural gas is sold on short-term spot contracts thereby allowing Cypress to be well positioned to take advantage of the expected increase in natural gas prices in 2000.

Natural Gas Liquids Sales

Natural gas liquids sales increased 106 percent during the year from $4.2 million in 1998 to $7.2 million in 1999. The increase in natural gas liquids sales can be primarily attributed to an increase in prices received during the year and a small increase in volumes produced. Average daily production of natural gas liquids increased 15 percent to 1,065 barrels per day in 1999 from 927 barrels per day in 1998.

Cypress did not hedge prices or have any fixed price contracts relating to natural gas liquids during 1999. In 2000, natural gas liquids are being sold pursuant to spot price agreements.

Royalties and ARTC

Total royalties increased in 1999 primarily due to increased petroleum and natural gas sales. Crown royalties as a percentage of petroleum and natural gas sales increased to 15.3 percent in 1999. Freehold and GORR royalties as a percentage of petroleum and natural gas sales decreased in 1999 to 8.4 percent from 13.2 percent. Total royalties as a percentage of petroleum and natural gas sales increased marginally to 23.7 percent from 22.0 percent, due primarily to higher realized prices.

Royalties

Years ended December 31 ($000s)	1999	1998	% Change
Crown	$ 12,054	$ 3,019	+ 299
Freehold, GORR	6,608	4,521	+ 46
Total Crown, freehold and GORR royalties	18,662	7,540	+ 147
ARTC	(1,392)	(442)	+ 215
Total royalties, net of ARTC	$ 17,270	$ 7,098	+ 143

Average Royalty Rates

Years ended December 31 (average % of sales, excluding hedging activities)	1999	1998	% Change
Crown	15.3	8.8	+ 74%
Freehold and GORR	8.4	13.2	– 36%
Total Crown, freehold and GORR royalties	23.7	22.0	+ 8%
ARTC	(1.8)	(1.3)	+ 38%
Total royalties, net of ARTC	21.9	20.7	+ 6%

Cypress has producing properties on both freehold and Crown lands. In 1999 the relative portion of producing properties on Crown lands increased due primarily to the acquisition of Canadian Conquest whose properties were located principally on Crown lands. As a result, Cypress paid an increased amount of Crown royalties in 1999 both in absolute terms and as a percentage of total petroleum and natural gas sales. Conversely, the producing properties on freehold lands as a percentage of total lands decreased thereby causing freehold and GORR royalties expressed as a percentage of total petroleum and natural gas sales to decrease.

The amount of ARTC that Cypress received in 1999 increased to $1.4 million from $0.4 million in 1998. This increase was due to Cypress incurring additional Crown royalties that are eligible for ARTC in 1999. In past years Cypress did not incur sufficient Crown royalties to make it eligible for the maximum ARTC, however, by the end of 1999 Cypress was eligible for the maximum ARTC.

In 2000, Cypress expects the average Crown royalty rate to increase slightly due to expected higher commodity prices. In addition, ARTC received in 2000 will likely be lower than that received in 1999 as a result of expected higher commodity prices.

Production Expenses

Production expenses increased 92 percent in 1999 to $12.0 million from $6.2 million in 1998. This increase was primarily due to a 66 percent increase in production volumes. Average production expense per barrel of oil equivalent increased 16 percent to $3.98 from $3.43 in 1998. The increase in production expense per barrel of oil equivalent is due to a number of factors. First, the properties acquired from the Canadian Conquest acquisition cost more to operate than Cypress' existing properties and second, Cypress experienced a small general increase in third party costs and supplies to operate the properties in 1999.

Operating Netback

Cypress' average operating netback increased 42 percent to $16.22 per barrel of oil equivalent from $11.44 per barrel of oil equivalent in 1998. This was primarily due to the increase in average realized prices during the year.

Operating Netback

Years ended December 31 ($/boe)	1999	1998	% Change
Sales price per boe (including hedging activities)	25.80	18.74	+ 38
Royalty income	0.13	0.03	+ 333
	25.93	18.77	+ 38
Royalties, net of ARTC	(5.73)	(3.90)	+ 47
Production expenses	(3.98)	(3.43)	+ 16
Operating netback	16.22	11.44	+ 42

General and Administrative Expenses

General and administrative expenses, net of capital overhead recoveries, increased 85 percent to $3.5 million in 1999 from $1.9 million in 1998. This increase reflects the Company's decision to expand staff levels in order to capitalize on opportunities provided by corporate acquisitions as well as from internally generated drilling activity.

General and Administrative Expenses

Years ended December 31 ($000s, except per boe)	1999	1998	% Change
G & A expense (gross)	$ 4,372	$ 2,532	+ 73
Overhead recoveries	(864)	(638)	+ 35
G & A expense (net)	$ 3,508	$ 1,894	+ 85
G & A expense per boe (net)	$ 1.16	$ 1.04	+ 12

Interest Expense

Interest expense increased 193 percent to $3.8 million from $1.3 million in 1998. This increase is due primarily to increased debt levels associated with the Company's growth throughout the year.

Interest Expense

Years ended December 31 ($000s, except where noted)	1999	1998	% Change
Interest expense	$ 3,758	$ 1,281	+ 193
Interest expense per boe	$ 1.25	$ 0.70	+ 79
Average debt outstanding	$67,000	$25,000	+ 168
Average interest rate (%)	5.6 %	5.1 %	+ 10

As a result of the Canadian Conquest acquisition, Cypress assumed an interest rate swap that fixes the Company's interest rate on a notional $9.0 million of debt at an all in rate of approximately 6.8 percent until March 11, 2002. The counterparty to the interest rate swap agreement has an option to extend the contract at the same rate and notional amount to March 11, 2004.

Depletion, Depreciation and Site Restoration

In 1999 depletion, depreciation and site restoration increased 84 percent to $26.4 million from $14.3 million. This increase is due primarily to the increase in production experienced in the year. The per unit cost of depletion, depreciation and site restoration also increased 11 percent to $8.76 per barrel of oil equivalent in 1999 from $7.88 per barrel of oil equivalent in 1998. This increase resulted from the higher cost of adding proven reserves in 1999 than in prior years. These higher costs were due primarily to the corporate acquisitions undertaken in 1999.

Cypress provides for expected future costs associated with site restorations and abandonments of wells and facilities, the estimate of which is included in depletion and depreciation. The 1999 year-end provision has increased by 230 percent to $2.0 million from $0.6 million at year end 1998. The year-end provision is net of cash expenditures incurred in 1999 of $0.2 million. The year- end provision reflects the increased number of wells and facilities owned by the Company in 1999.

Depletion, Depreciation and Site Restoration

Years ended December 31 ($000s, except where noted)	1999	1998	% Change
Depletion, depreciation and site restoration	$26,417	$14,332	+ 84
Depletion, depreciation and site restoration (per boe, natural gas production and reserves converted at 10:1)	$ 8.76	$ 7.88	+ 11

Income Taxes

Capital taxes paid in 1999 of $0.7 million included Large Corporation Tax of $0.5 million and Saskatchewan Capital Taxes of $0.2 million. Capital taxes increased due to the larger capital base associated with Cypress' growth in 1999. All capital taxes in 1998 were Large Corporation taxes since Cypress owned minimal properties in Saskatchewan in 1998. Cypress paid no current income taxes during 1999 and 1998.

The effective tax rate in both 1999 and 1998 was higher than the statutory rate of approximately 45 percent due to the non-deductibility of certain depletion charges attributable to corporate acquisitions that have increased the Company's property and equipment cost base without increasing associated tax pools in the same proportion.

Income Taxes

Years ended December 31 ($000s, except where noted)	1999	1998	% Change
Capital taxes	$ 746	$ 165	+ 352
Deferred taxes	7,049	1,527	+ 361
	$ 7,795	$ 1,692	+ 361
Total income taxes ($/boe)	$ 2.59	$ 0.93	+ 178
Effective tax rate (%)	51.2	51.5	– 1

At the end of 1999, Cypress had approximately $185.5 million of tax pools available for deduction against future earnings as compared to $106.5 million at the end of 1998.

Cash Flow from Operations and Net Income

Cash flow from operations increased 134 percent to $40.9 million in 1999 from $17.5 million in 1998. Net income more than tripled to $7.4 million in 1999 from $1.6 million in 1998. These increases were primarily due to higher production volumes and higher commodity prices.

Capital Expenditures

Total capital expenditures increased 225 percent to $163.5 million in 1999 from $50.3 million in 1998. Approximately 51 percent of 1999's total capital expenditures related to the acquisitions of Canadian Conquest and Gardiner. In 1998, the substantial majority of total capital expenditures were devoted to exploration and development activities.

The acquisitions of Canadian Conquest and Gardiner were financed primarily though the issuance of equity. The remainder of 1999's total capital expenditures was financed primarily through internally generated cash flow from operations and an increase in long-term debt.

Capital Expenditures

Years ended December 31 ($000s)	1999	1998	% Change
Property acquisitions	$ 34,050	$ 17,246	+ 97
Undeveloped land and rentals	5,837	3,303	+ 77
Geological and geophysical	3,664	2,346	+ 56
Drilling and completions	26,268	20,545	+ 28
Facilities and equipment	9,677	6,698	+ 44
Acquisition of Canadian Conquest	75,396	–	n/a
Acquisition of Gardiner	8,280	–	n/a
Other	298	175	+ 70
Total capital expenditures	163,470	50,313	+ 225
Dispositions	(62)	(1,396)	n/a
Tax benefits renounced	(3,828)	(898)	n/a
Net capital expenditures	$ 159,580	$ 48,019	+ 232

Liquidity and Capital Resources

Cypress typically utilizes three sources of funding to finance its capital expenditure program; internally generated cash flow from operations, debt where deemed appropriate and new equity issues if available on favourable terms. When financing corporate acquisitions, the Company may also assume certain future liabilities.

Capital Resources

Years ended December 31 ($000s)	1999	1998
Cash flow from operations	$ 40,903	$ 17,451
Working capital (including acquired working capital)	(202)	2,525
Long-term debt (including acquired debt)	58,201	7,043
Net acquired estimated future liabilities	3,124	–
Equity issues (net of costs and repurchases)	61,579	22,123
	$ 163,605	$ 49,142

Cypress has budgeted approximately $90 million in capital expenditures for 2000, exclusive of any corporate acquisitions. Cypress expects to fund the majority of its 2000 capital expenditure program through the reinvestment of cash flow from operations generated during the year and expects to fund the remainder of such expenditures through additional long-term debt.

Working Capital

Cypress had a net working capital deficiency of $0.6 million at December 31, 1999. The principal components of working capital at year end were accrued payables resulting from the Company's winter drilling program and accrued receivables for production for the month of December, along with an amount for a property held for resale. Cypress' working capital varies on a month-to-month basis depending primarily on the Company's drilling program and petroleum and natural gas sales for the month. Working capital liquidity is maintained by drawing from and repaying the unutilized portion of the Company's credit facility as needed.

Bank Debt

Cypress expects to use long-term debt to fund that portion of its 2000 capital expenditure budget not funded by cash flow from operations. The Company believes that, properly managed, debt funding enhances growth and profitability to shareholders without dilution or unnecessary risk.

At December 31, 1999, Cypress had a $115 million demand operating facility with a Canadian chartered bank of which $92.8 million was drawn. The loan facility provides that advances may be made by way of direct advances, bankers acceptances or U.S. dollar LIBOR advances which bear interest at the applicable bankers' acceptances or LIBOR rates, plus an applicable bank fee per annum or the bank's prime lending rate depending on the nature of the advance. The authorized limit is subject to an annual review and redetermination of the Company's borrowing base by the bank.

Collateral pledged for the facility consists of a fixed and floating charge demand debenture in the principal amount of $200 million conveying a floating charge on all of the property and assets of the Company. The Company's borrowing base is currently in the process of the annual review by the bank and the Company expects that given current production and commodity prices that the borrowing base will be increased in 2000.

Cash Flow from Operations

Cypress' expected cash flow from operations depends largely on the volume of the Company's petroleum and natural gas production and the price received for such production, along with the costs associated with the production. The price the Company receives for its oil depends on a number of factors, including WTI oil prices, Edmonton par oil prices, quality differentials and Canadian/U.S. currency exchange rates. The price the Company receives for its natural gas production has in some cases been determined by long-term production contracts and in other cases dependant on current market prices. Cypress' expected cash flow from operations will be more sensitive to some of these factors than others.

2000 Estimated Cash Flow from Operations Sensitivities

Factor	Variance in Factor	Variance in Cash Flow
WTI oil price	US$1.00/bbl	$ 1,701,000
AECO gas price	Cdn$0.10/gj	$ 1,808,000
Cdn/US Exchange	Cdn$0.01	$ 246,000
Prime interest rate	1.0%	$ 275,000

Business Risks

The Company is involved in the exploration, development, production and acquisition of petroleum and natural gas in the Western Canadian Sedimentary Basin. These activities involve a number of risks and uncertainties inherent in the industry.

Inherent in exploration and development are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, the Company uses experienced staff to evaluate and operate wells and utilizes appropriate technology in its operations. In addition, the Company uses prudent safety programs and risk management, including insurance coverage against potential losses.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of the Company. At times when the Company believes it is at risk for a significant reduction in market price of the commodities it produces or requires a certain commodity price to fund its capital expenditure program, it may enter into contracts to hedge or fix the price of the commodities sold.

The Company's access to markets may be restricted at times by pipeline or processing capacity. Cypress minimizes these risks by controlling as much of its processing and transportation activities as possible.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Cypress has no control over the level of government intervention or taxation in the petroleum and natural gas industry. However, the Company operates in such a manner to ensure that it is in compliance with all applicable regulations and is able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Cypress has reviewed its environmental risks and is in compliance with the appropriate environmental legislation and has determined that there is no current material impact on the Company's operations.

The Company is subject to financial market risk. In order to achieve substantial rates of growth, the Company must keep reinvesting in drilling for or acquiring

petroleum and natural gas properties. One source of funding for the Company's expenditure programs is through the issuance of equity. If the Company is not able to access the equity markets due to unfavorable market conditions for an extended period of time, this may adversely impact the Company's growth rate. Cypress minimizes the financial market risk by maintaining a conservative financing structure. In 2000, Cypress will be able to finance its expected capital expenditure program through the use of internally generated cash flow from operations and an increase in debt financing.

Outlook

The year 2000 is expected to be another year of significant growth in both financial and operating results for Cypress. The acquisition of Canadian Conquest Exploration and Gardiner Exploration provided the Company with three new core areas in 1999. These acquisitions, in combination with the expansion of the Company's undeveloped land base, provide an unprecedented inventory of drilling opportunities. Cypress has a planned capital budget of $90 million excluding acquisitions which can be financed within the constraints of our own balance sheet. This should allow over 100 wells to be drilled in 2000, which will advance the Company to the next level of growth.

Management's Report

The consolidated financial statements of the Company are the responsibility of management and the Board of Directors of the Company. They have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a consistent basis.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The consolidated financial statements necessarily include certain estimates which are made after consideration of the information available and using careful judgements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee which is comprised of directors who are not employees of the Company. The Committee meets with management and the external auditors to satisfy itself that the responsibilities of the respective parties are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval.

The shareholders have appointed Ernst & Young LLP as the external auditors of the Company and, in that capacity, they have examined the consolidated financial statements for the period ended December 31, 1999. The Auditors' Report to the shareholders is presented herein.

Donald Archibald
President and Chief Executive Officer

Randal Brockway
Vice President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of Cypress Energy Inc.

We have audited the consolidated balance sheets of Cypress Energy Inc. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
March 7, 2000

Consolidated Balance Sheets

As at December 31 ($000s)	1999	1998
Assets		
Current assets		
Accounts receivable	$ 17,112	$ 9,531
Deposits, prepaids and other	2,452	542
Assets held for resale (note 3)	5,395	—
	24,959	10,073
Property and equipment (note 4)	270,572	136,489
	$ 295,531	$ 146,562
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 25,511	$ 10,392
Long-term debt (note 6)	92,760	34,559
Deferred rental obligation	772	—
Deferred income taxes	8,017	518
Provision for future site restoration	2,043	618
	103,592	35,695
Shareholders' Equity		
Share capital (note 7)	155,478	96,921
Retained earnings	10,950	3,554
	166,428	100,475
	$ 295,531	$ 146,562

See accompanying notes

On behalf of the Board:

Donald Archibald
Director, President
and Chief Executive Officer

Douglas Dafoe
Director, and Chairman
of the Audit Committee

Consolidated Statements of Income and Retained Earnings

Years ended December 31 ($000s)	1999	1998
Revenue		
Petroleum and natural gas sales	$ 78,168	$ 34,124
Royalties, net of ARTC	(17,270)	(7,098)
	60,898	27,026
Expenses		
Production	11,983	6,235
General and administrative	3,508	1,894
Interest	3,758	1,281
Depletion, depreciation and site restoration	26,417	14,332
	45,666	23,742
Income before income taxes	15,232	3,284
Income taxes (note 8)		
Capital taxes	746	165
Deferred	7,049	1,527
	7,795	1,692
Net income for the year	7,437	1,592
Retained earnings, beginning of year	3,554	1,962
Acquisition of shares in excess of carrying value	(41)	—
Retained earnings, end of year	$ 10,950	$ 3,554
Earnings per common share (note 9)		
Basic – Class A shares only	$ 0.20	$ 0.07
Basic – Class A and Class B shares	$ 0.20	$ 0.06
Fully diluted	$ 0.20	$ 0.06

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($000s)	1999	1998
Cash provided by (used in):		
Operating Activities		
Net income for the year	$ 7,437	$ 1,592
Non-cash items		
Depletion, depreciation and site restoration	26,417	14,332
Deferred income taxes	7,049	1,527
Cash flow from operations	40,903	17,451
Net change in non-cash working capital items	1,561	2,525
	42,464	19,976
Financing Activities		
Increase in long-term debt	31,373	7,043
Issue of Class A flow-through shares	3,731	1,995
Issue of Special Warrants	—	20,600
Issue of Class A shares on exercise of stock options	991	688
Repurchase of Class A shares	(129)	(3)
Share issue costs (note 7)	(1,724)	(1,157)
	34,242	29,166
Investing Activities		
Additions to property and equipment	(79,732)	(48,917)
Cash expenditures on acquisitions (note 5)	(3,682)	—
Cash acquired on acquisition (note 5)	6,905	—
Site restoration and abandonment expenditures	(197)	(225)
	(76,706)	(49,142)
Change in cash and cash, beginning and end of year	—	—
Cash flow from operations per common share (note 9)		
Basic – Class A shares only	$ 1.12	$ 0.72
Basic – Class A and Class B shares	$ 1.09	$ 0.68
Fully diluted	$ 1.04	$ 0.60

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 1999 and 1998

($000s, except per share amounts)

1. DESCRIPTION OF THE BUSINESS

Cypress Energy Inc. ("Cypress" or the "Company") was incorporated under the laws of the Province of Alberta on November 16, 1995. The Company's business is related to the acquisition of petroleum and natural gas rights and the exploration for, and the development, exploitation and production of, petroleum and natural gas in Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles which, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Property and Equipment

Capitalized Costs

The Company follows the full cost method of accounting in accordance with the guidelines issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized and charged to income as set out below. Such costs include lease acquisition, drilling, geological and geophysical, equipment costs, staff costs and certain overhead expenses directly related to exploration and development activities. Costs of acquiring and evaluating unproved properties are excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties or when impairment occurs.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20 percent or more.

Depletion and Depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided on accumulated costs using the unit of production method based on estimated

proven petroleum and natural gas reserves, before royalties, as determined by independent engineers. For purposes of the depletion calculation natural gas reserves and production are converted to equivalent barrels of oil using the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. Depreciation of gas plants and related equipment is provided for on a straight-line basis over fifteen years.

The depletion and depreciation cost base includes total capitalized costs, less costs of unproved properties, plus a provision for future development costs of proven undeveloped reserves.

Ceiling Test

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed the aggregate of estimated future net revenues from production of proven reserves and the costs of unproved properties, net of impairment allowances, less estimated future production costs, general and administrative costs, financing costs, site restoration and abandonment costs, and income taxes. Future net revenues are estimated using year-end prices and costs without escalation or discounting, and the income tax and Alberta Royalty Tax Credit legislation in effect at the year end.

Office furniture and equipment

Office furniture and equipment are carried at cost and are depreciated on a straight line basis over the estimated useful lives of the assets at rates varying between 15 percent and 20 percent.

Future site restoration and abandonment costs

The estimated cost of future site restoration and abandonment is based on the current cost and the anticipated method and extent of site restoration and abandonment in accordance with existing legislation and industry practice. The annual charge, provided for on a unit of production basis, is accounted for as part of depletion, depreciation and site restoration expense. Site restoration expenditures are charged to the accumulated provision account as incurred.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

Joint operations

Substantially all of the Company's exploration and development activities are conducted jointly with others, and accordingly the consolidated financial statements reflect only the Company's proportionate interest in such activities.

Income Taxes

The Company follows the deferral method of accounting for income taxes. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are reduced by exploration and development costs and capital cost allowances in excess of the depletion and depreciation provisions recorded in the accounts.

Flow-through shares

A portion of the Company's exploration and development activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to Cypress, the carrying value of the Company's oil and gas properties and the flow-through shares issued are recorded net of the tax benefit of the renouncements when the qualifying expenditures occur.

Financial Instruments

Financial instruments of the Company consist mainly of accounts receivable, accounts payable and accrued liabilities and long-term debt. As at December 31, 1999 and 1998 there are no significant differences between the carrying amounts reported on the balance sheet and the estimated fair values of the financial instruments.

The Company also from time to time employs financial instruments to manage exposures related to interest rates, Canada/U.S. exchange rates and commodity prices. These instruments are not used for speculative trading purposes.

Gains and losses on exchange rate and commodity price hedges are included in revenues upon the sale of the related production provided there is reasonable assurance that the hedge is and will continue to be effective. Amounts received or paid under interest rate swaps are recognized in interest expense on an accrual basis.

3. ASSETS HELD FOR RESALE

On November 1, 1999 the Company acquired assets in the Thorsby area for $5.5 million. The Company has granted a third party an irrevocable option, exercisable through May 14, 2000, to purchase these assets for a purchase price equal to the original acquisition cost of $5.5 million subject to adjustments relating to operations from November 1, 1999 to the option exercise date. Assets held for resale has been shown net of revenue attributable to the property during the option period to date of $0.1 million. On March 3, 2000 the option was exercised and the properties were sold to the option holder.

4. PROPERTY AND EQUIPMENT

	1999	1998
Petroleum and natural gas properties	$ 312,624	$ 153,392
Office furniture and equipment	845	497
	313,469	153,889
Accumulated depletion and depreciation	(42,897)	(17,400)
Net property and equipment	$ 270,572	$ 136,489

At December 31, 1999 the Company estimates its liability for future site restoration and abandonment to be $7.8 million (net of the year-end accumulated provision) (1998 - $3.3 million).

At December 31, 1999 $31.4 million (1998 - $9.5 million) of costs associated with unproved properties have been excluded from costs subject to depletion.

5. ACQUISITIONS

(a) Acquisition of Canadian Conquest Exploration Inc.

In May, 1999, the Company acquired all of the common shares of Canadian Conquest Exploration Inc. ("Canadian Conquest"). Canadian Conquest was amalgamated with Cypress effective September 1, 1999. The acquisition was accounted for by the purchase method and the purchase price was allocated as follows:

Net working capital	$ 1,140
Property and equipment	75,396
Long-term debt	(26,828)
Rent obligation	(1,207)
Provision for deferred taxes	(1,215)
Provision for future site restoration	(702)
Total consideration	$ 46,584

Consideration was comprised of:	
Cash	$ 3,619
Issue of 10,479,200 Class A shares at $4.10 per share	42,965
Total consideration	$ 46,584

(b) Acquisition of Gardiner Exploration Limited

In July, 1999, the Company acquired all of the common shares of Gardiner Exploration Limited ("Gardiner"). Gardiner was amalgamated with Cypress effective September 1, 1999. The acquisition was accounted for by the purchase method and the purchase price was allocated as follows:

Cash	$ 6,905
Net non-cash working capital	623
Property and equipment	8,280
Total consideration	$ 15,808

Consideration was comprised of:	
Cash	$ 63
Issue of 2,581,200 Class A shares at $6.10 per share	15,745
Total consideration	$ 15,808

6. LONG-TERM DEBT

At December 31, 1999, the Company had a $115 million demand operating credit facility with a Canadian chartered bank. The loan facility provides that advances may be made by way of direct advances, bankers acceptances or U.S. dollar LIBOR advances which bear interest at the applicable bankers' acceptances or LIBOR rates plus an applicable bank fee per annum or the bank's prime lending rate depending on the nature of the advance. The authorized limit is subject to an annual review and redetermination of the Company's borrowing base by the bank.

The effective interest rate on the amounts outstanding under the facility at December 31, 1999 was 5.7 percent (1998 – 5.9 percent).

Cash interest paid for the years ended December 31, 1999 and 1998 approximated interest expense.

Collateral pledged for the facility consists of a fixed and floating charge demand debenture in the principal amount of $200 million conveying a floating charge on all of the property and assets of the Company.

While the credit facility is demand in nature, the bank has stated that it is not its intention to call for repayment before December 31, 2000 provided that there is no adverse change in the Company's financial position. Accordingly, the loan advances are classified as long-term.

At December 31, 1999, the Company was party to a contract to fix the interest rate on $9.0 million of its loan advances at approximately 6.8 percent until March 11, 2002. In addition, the counterparty to the contract has an option to extend the contract at its expiry to March 11, 2004 at the same rate and for the same notional amount. If the Company were required to settle this contract at December 31, 1999, a cash payment of approximately $0.1 million would be required.

7. SHARE CAPITAL

Authorized:

Unlimited number of Class A and Class B common voting shares

Issued:

	1999		1998	
	Number of shares (000s)	Amount	Number of shares (000s)	Amount
Class A Shares				
Outstanding, beginning of year	28,256	$ 97,867	23,408	$ 74,587
On acquisition of Canadian				
Conquest (see note 5)	10,479	42,965	—	—
On acquisition of Gardiner (see note 5)	2,581	15,745	—	—
Private placement (a)	746	3,731	547	1,995
Special Warrants financings (b)	—	—	4,000	20,600
Repurchase of Class A shares	(24)	(88)	(1)	(3)
Exercised stock options	483	991	302	688
Class A Shares				
Outstanding, end of year	42,521	161,211	28,256	97,867
Class B Shares (c)				
Outstanding, beginning and end of year	558	5,580	558	5,580
		166,791		103,447
Share issue costs (d)		(4,132)		(3,173)
Tax benefits renounced (a)		(7,181)		(3,353)
Total Share Capital		$ 155,478		$ 96,921

(a) On December 31, 1999 Cypress issued 746,263 flow-through shares (1998 – 546,574) at $5.00 per share (1998 - $3.65) resulting in gross proceeds of $3.7 million (1998 - $2.0 million).

In accordance with the terms of the flow-through share offering and pursuant to certain provisions of the Income Tax Act (Canada), Cypress is committed to incur, for income tax purposes, aggregate exploration expenditures of $3.7 million (1998 - $2.0 million) to the purchasers of its flow-through shares.

(b) On March 30, 1998, Cypress completed a Special Warrants financing consisting of 4,000,000 Special Warrants at $5.15 per Special Warrant for gross proceeds of $20.6 million. The Special Warrants were converted in April, 1998 into 4,000,000 Class A shares for no additional consideration.

(c) The Class B shares are convertible at the option of Cypress into Class A shares at any time after March 1, 2000 and before March 1, 2002. After March 1, 2002 the Class B shares are convertible at the option of the shareholder until June 30, 2002 when all remaining Class B shares will be deemed to be converted. The number of Class A shares to be issued on conversion of each Class B share will be equal to $10.00 divided by the greater of $1.00 or the current market price of the Class A shares at the conversion date.

(d) The total share issue costs incurred related to the 1999 and 1998 share issues were $1.7 million and $1.2 million respectively. A charge to share capital of $1.0 million (1998 - $0.6 million) was recorded to reflect these costs, net of the $0.7 million (1998 - $0.6 million) estimated deferred tax benefit of the share issue costs.

Stock options

The Company has established a stock option plan whereby options may be granted to its directors, officers and employees. The exercise price of each option equals the market price of the Company's stock on the date of the grant and an option's maximum term is five years. The stock options are exercisable over a five-year period from the date of grant. The options are exercisable on a cumulative basis of 20 percent immediately and 20 percent per year for each of the first four years of the plan. No compensation expense is recognized for the plan when stock options are issued or exercised. Of the total options outstanding, 896,400 are subject to shareholder ratification. The following is a continuity of stock options outstanding for which shares have been reserved:

	1999		1998	
	Shares (000s)	**Weighted Average Exercise Price**	Shares (000s)	Weighted Average Exercise Price
Balance, beginning of year	**2,181**	**$ 3.06**	1,456	$ 2.51
Granted	**1,925**	**$ 4.48**	1,119	$ 3.55
Exercised	**(483)**	**$ 2.05**	(302)	$ 2.05
Cancelled	**(41)**	**$ 3.37**	(92)	$ 2.99
Balance, end of year	**3,582**	**$ 3.96**	2,181	$ 3.06

The following summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Price	Number Outstanding at 12/31/99 (000s)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Excercisable at 12/31/99 (000s)	Weighted Average Exercise Price
$ 1.78 to $ 2.75	331	2.0	$ 2.19	150	$ 2.16
$ 3.15 to $ 3.75	1,292	3.6	$ 3.47	397	$ 3.50
$ 4.10 to $ 4.95	1,900	4.5	$ 4.52	418	$ 4.50
$ 6.00	59	4.8	$ 6.00	12	$ 6.00
	3,582	3.9	$ 3.96	977	$ 3.75

8. INCOME TAXES

Income taxes recorded on the consolidated statement of income and retained earnings differ from the tax calculated by applying the combined statutory Canadian corporate federal and provincial income tax rate to income before tax as follows:

	1999	1998
Statutory tax rate	45%	45%
Calculated income tax expense	$ 6,796	$ 1,478
Increase (decrease) in income tax resulting from:		
Non-deductible Crown payments	5,379	1,371
Federal resource allowance	(6,321)	(2,445)
Alberta Royalty Tax Credit	(622)	(197)
Non-deductible depletion and depreciation	1,817	1,320
Total deferred taxes	7,049	1,527
Large corporation and capital tax	746	165
Income tax provision	$ 7,795	$ 1,692

As at December 31, 1999, the Company has exploration and development costs, undepreciated capital costs and unamortized share issue costs and loss carryforwards available for deduction against future taxable income in aggregate of approximately $185.5 million (1998 - $106.5 million).

Cash tax paid for the years ended December 31, 1999 and 1998 approximated the amounts reported above for large corporation and capital taxes for each of the years.

9. PER SHARE AMOUNTS

The calculations of earnings per "Class A share" and cash flow from operations per "Class A share" are based on the weighted average number of Class A shares outstanding during the year ended December 31, 1999 of 36.5 million (1998 – 24.3 million). The calculations of earnings per "Class A and Class B shares" and cash flow from operations per "Class A and Class

B shares" are based on the weighted average number of Class A and Class B shares outstanding during the year ended December 31, 1999 of 37.5 million (1998 – 25.8 million). The "fully diluted" weighted average number of shares outstanding during the year ended December 31, 1999 is 39.9 million (1998 – 29.7 million). The number of shares for the calculation of "Class A and Class B" and "fully diluted" assumes that the Class B shares were deemed to be converted into Class A shares based on the conversion formula described in note 7(c) using the trading price of the Class A shares as at December 31, 1999 which was $6.10 (1998 - $3.85). The fully diluted number of shares also includes the effects of exercising outstanding stock options.

Cash flow from operations per share is based on cash flow from operations before changes in non-cash working capital items.

10. COMMODITY MARKETING ARRANGEMENTS

As at December 31, 1999, physical delivery contracts were in effect to deliver a total of 11,473 gigajoules/day at prices as set out in the following table:

Sales Volume (GJ/Day)	Terms	Contract Expiry Dates
2,740	AECO Daily Spot less $0.075/GJ	October 31, 2002
2,461	AECO Monthly plus variable premium, less 3% marketing fee	September 30, 2003
5,272	NYMEX capped at US$1.975/MMBTU with floating NYMEX / AECO differential	June 30, 2000
1,000	AECO fixed price of $2.58/GJ	October 31, 2000

The balance of 1999 gas sales was split between aggregator sales (approximately 18.1 mmcf/d) and spot gas sales. All liquids are sold on a spot basis.

In addition, as at December 31, 1999, the Company had the following natural gas swap outstanding. If the Company were required to settle this financial contract at December 31, 1999, a cash payment of approximately $0.4 million would be required.

Volumes GJ/Day	Period	AECO"C"/NIT Price/GJ
10,000	November 1, 1999 – October 31, 2000	$ 2.64

11. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

In 1999, the Company adopted, on a retroactive basis, the requirement of the Canadian Institute of Chartered Accountants relating to the presentation of the Consolidated Statement of Cash Flows.

Quarterly Summary

	Q4	Q3	Q2	Q1
FINANCIAL ($000s except per share amounts)				
Gross production revenue	**27,175**	23,513	16,602	10,878
Cash flow from operations	**13,662**	13,016	8,529	5,696
Per share – fully diluted	**0.31**	0.31	0.23	0.19
Net income	**3,418**	2,499	990	530
Per share – fully diluted	**0.09**	0.06	0.03	0.02
Capital expenditures, net	**28,769**	35,577	85,620	13,442
Long-term debt (including working capital deficiency)	**93,312**	81,592	74,803	42,505
Shareholders' equity	**166,428**	162,224	144,869	101,124
Weighted average common shares outstanding – fully diluted (000's)	**39,914**	37,727	34,328	30,994

	Q4	Q3	Q2	Q1
OPERATING				
Production				
Oil and NGLs (bbls/d)	**3,914**	3,596	2,927	1,897
Natural gas (mcf/d)	**58,710**	57,268	49,353	41,092
Total (boe/d) (10:1 conversion)	**9,785**	9,323	7,862	6,006
Undeveloped land (net acres)	**468,625**	482,461	317,636	125,923
Prices (excluding hedging)				
Oil and NGLs ($/bbl)	**29.80**	25.60	19.30	13.45
Natural gas ($/mcf)	**3.14**	2.91	2.55	2.27
Total ($/boe)	**30.77**	27.78	23.18	19.80
Operating costs ($/boe)	**4.70**	3.85	4.01	2.92

Four Year Summary

Years ended December 31,	1999	1998	1997	1996 *
FINANCIAL				
($000s except per share amounts)				
Gross production revenue	**78,168**	34,124	11,794	2,107
Cash flow from operations	**40,903**	17,451	6,002	1,225
Per share – fully diluted	**1.04**	0.60	0.40	0.19
Net income	**7,437**	1,592	1,509	453
Per share – fully diluted	**0.20**	0.06	0.10	0.07
Capital expenditures, net	**163,408**	48,917	90,974	17,135
Total assets	**295,531**	146,562	111,565	17,823
Long-term debt (including working capital deficiency)	**93,312**	34,878	25,311	2,080
Shareholders' equity	**166,428**	100,475	77,137	13,997
Weighted average common shares outstanding – fully diluted (000's)	**39,914**	29,692	15,174	7,154
Common shares outstanding at year end – Class A (000's)	**42,521**	28,256	23,408	8,452
OPERATING				
Production				
Oil and NGLs (bbls/d)	**3,090**	1,652	563	183
Natural gas (mcf/d)	**51,669**	33,288	9,013	2,634
Total (boe/d) (10:1 conversion)	**8,257**	4,981	1,464	446
Reserves (proved and probable)				
Oil and NGLs (mbbls)	**12,963**	6,749	4,958	1,140
Natural gas (mmcf)	**225,187**	138,013	112,017	24,800
Total (mboe) (10:1 conversion)	**35,480**	20,553	16,160	3,620
PV 12% Reserve Value ($000s)				
Proven	**261,000**	116,000	84,000	18,000
Proven and Probable	**315,000**	142,000	106,000	24,000
Land				
Undeveloped land (net acres)	**468,625**	135,360	103,330	29,315
PRICES (excluding hedging)				
Oil and NGLs ($/bbl)	**23.61**	14.64	24.00	29.18
Natural gas ($/mcf)	**2.77**	2.08	2.09	2.32
Total ($/boe)	**26.15**	18.78	22.07	25.64
Operating costs ($/boe)	**3.98**	3.43	5.44	5.70
G & A costs ($/boe)	**1.16**	1.04	2.30	4.15

* Represents six months of activity as Cypress commenced production on July 1, 1996.

Officers

Donald Archibald
President and Chief Executive Officer

Randal Brockway
Vice President, Finance and
Chief Financial Officer

Howard Crone
Vice President, Operations and
Chief Operating Officer

Alison Jones
Vice President, Exploration

Gary Peddle
Vice President, Land

Directors

Donald Archibald
President and Chief Executive Officer
Cypress Energy Inc.

Fred Coles
Executive Chairman
Applied Terravision Systems Inc.

Greg Daniels
Managing Director
Citibank Canada

Douglas Dafoe
President, Chief Executive Officer
and Director
Thunder Energy Inc.

Max Muselius
Rancher

Banker

Bank of Montreal
Calgary, Alberta

Auditor

Ernst & Young LLP
Calgary, Alberta

Evaluation Engineer

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Legal Counsel

Macleod Dixon
Calgary, Alberta

Registrar and Transfer Agent

The Trust Company of Bank
of Montreal
Calgary, Alberta and Toronto, Ontario

Stock Exchange Listings

Toronto Stock Exchange
Trading symbol: CYZ.A

Canadian Venture Exchange
Trading symbols: CYZ.A, CYZ.B

Head Office

Suite 2700, 500 - 4th Avenue S.W.
Calgary, Alberta T2P 2V6
Tel: (403) 262-8225 Fax: (403) 263-7433

Website

www.cypressenergy.com

Email

investorrelations@cypressenergy.com

Notice of Annual Meeting

The annual meeting of shareholders will be held on Monday, May 29, 2000 at 3:00 p.m. in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta. Shareholders unable to attend are requested to complete, sign and return the Form of Proxy to The Trust Company of Bank of Montreal, 2400, 350 – 7th Avenue S.W. Calgary, Alberta T2P 3N9 prior to May 25, 2000.

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Cypress
ENERGY INC.

Suite 2700, 500 – 4th Avenue S.W.
Calgary, Alberta T2P 2V6
www.cypressenergy.com